

~~CONFIDENTIAL~~

## Polish Debt Rescheduling

### Recent Developments

In January the GOP initiated a review of its debt strategy as part of continuing work on its 1983 economic program. This review has been accompanied by public statements and actions which appear to reflect a hardening of the GOP position both with respect to payments owed to governments, including those pursuant to the 1981 rescheduling agreement, and the conditions under which the GOP would enter future official debt rescheduling negotiations. In particular, the recent statement by the Polish Foreign Minister published in Le Monde as well as Karcz's latest letter to the Paris Club chairman suggests that a Western political decision to ease sanctions and lift the embargo on new official credits must accompany the reopening of debt rescheduling negotiations.

This position could well reflect the continued deterioration in the Polish economy and a GOP assessment that an official rescheduling, without renewed access to Western government-backed credits, would not constitute an improvement for Poland over the current de facto moratorium on official debt service payments, and hence not be in the GOP's economic interest. For rescheduling to bring immediate economic benefit to Warsaw, it would have to be accompanied by credits in excess of payments to Western government.

Current GOP negotiations with the Western banks on 1983 debt rescheduling, which began in late January, may also reflect a hardening of the GOP approach to debt rescheduling. It was anticipated that the GOP would probably seek nearly total debt relief in these negotiations. In fact, in its opening proposal which the banks have rejected, the GOP apparently requested that all its debt to the private banks be rescheduled over a 20 year period, which 7 years grace, at a low, fixed moratorium interest rate.

The aforementioned developments have increased the nervousness of the neutral country creditors, who are concerned for budgetary and other reasons about being repaid and fear the GOP may be backing off from future rescheduling agreements. Pressure thus continues from neutral governments (Swiss in particular) to open talks with the GOP on a 1982 rescheduling. So far, any rupture has been avoided by the creditors' agreement to await the full response (not yet received) to the October letter sent by the Polish Creditors Group to Karcz. The letter

Drafted by  
Department of State

~~CONFIDENTIAL~~

-2-

requested essential economic data, protested GOP failure to live up to the 1981 Paris Club rescheduling agreement, and also berated the Poles for giving preferential treatment to private bank and other creditors.

#### Paris Club Discussions

At a Paris Club meeting February 2, the government creditors, including the neutrals, stuck by their policy of not even reconsidering opening 1982 debt rescheduling discussions until the GOP responded to the October creditors' letter and meets its financial obligations pursuant to the 1981 official rescheduling.

At subsequent Paris Club discussions the week of February 28, Karcz' interim reply to the Paris Club Chairman's October 27 letter was discussed. In his letter, Karcz reiterated the GOP position that Western sanctions, including the suspension of normal credit flows, had damaged the Polish economy and made it impossible for Poland to meet its financial obligations to Western government creditors. Karcz asserted that it was not the GOP's intention to discriminate against official creditors, but a question of ability to pay under Western imposed sanctions. Since Karcz promised in his letter to forward the requisite economic information to the Polish creditors group, there was a general creditors' consensus to wait for receipt of the additional information and continue discussions at the next Paris Club session the week of April 11.

#### Deliberations by EC Ministers

EC Foreign Ministers held a "political cooperation" meeting on March 1 at which they discussed inter alia Polish debt. The ten did not approve a formal statement on the discussions but did take the extraordinary step of publicly disclosing their dissatisfaction with existing policies on Polish debt.

The EC statement, which reached the press, mentioned that Poland has declared a "de facto" one hundred percent moratorium on its official debt obligations since it has failed to pay any interest. There are three basic elements in the EC statement: 1) there is no economic rationale for not rescheduling Poland's debt; 2) the EC wants to discuss Polish debt issues with the other creditors in the near future; and 3) the Poles must fulfill the terms of the 1981 rescheduling agreement as a pre-condition for rescheduling. The EC statement also indicates that there is little time left for the U.S. to complete its "assessment" of the Polish situation to determine what it wants to do.

CONFIDENTIAL

CONFIDENTIAL

-3-

On the political level, our British, French and German Allies have thus far agreed with our view of the Polish situation and exerted no pressure on us to change our stand against rescheduling. However, the UK also has told us that on economic and financial grounds HMG believes a rescheduling is warranted.

Implications of Rescheduling. GOP foreign exchange earnings in 1983 will total approximately \$1.4 billion from a \$1.0 billion trade surplus and \$0.4 billion in income from invisibles. Assuming a Western bank rescheduling of 1983 debt along the same lines as the 1982 bank rescheduling, GOP hard currency receipts should be adequate to meet interest and principal obligations to the banks under past and present rescheduling agreements, with possibly \$200 to \$300 million remaining to service Paris Club debt. The GOP owes Western governments an estimated \$7.7 billion this year, including \$7.2 billion in unrescheduled obligations due in 1982 and 1983, and approximately \$500 million in interest arrears on the 1981 Paris Club rescheduling. Thus, even with a 100 percent rescheduling of 1982 and 1983 official debt, the Polish Government would probably still be unable to meet its Paris Club, bank and other obligations without receipt of some new government-backed credits.

CONFIDENTIAL